

KEY MARKET AND ECONOMIC FORCES

January 2019

POSITIVE FACTORS

- The recent equity market swoon appears to have ended, and risk asset performance has improved
- Longer-term interest rates have fallen, and the Fed has indicated a willingness to slow or even pause its interest rate-hiking policy
- Corporate profits should grow in 2019
- The U.S. and China are in the midst of a temporary truce, allowing negotiations for a potential ease in the tariff war
- Continued non-government job growth should support higher spending
- The financial/banking system is healthy
- The dollar has plateaued, credit spreads have improved, and energy prices have bottomed

NEGATIVE FACTORS

- GDP will likely slow materially this year but remain solidly positive at 2%
- The longest government shutdown is beginning to weigh on near-term growth
- Financial market conditions have tightened somewhat despite the recent improvement in risk assets
- The lagged effects of higher short-term rates will continue to weigh on the cyclical sectors
- Trade tensions remain elevated with China, and there is little progress on Brexit issues
- A flat yield curve continues to act as a warning sign that growth may slow more than we expect

OUR RECOMMENDED TACTICAL STRATEGY

- Neutral Equity
- Emphasize Growth Versus Value in Equity
- Underweight International Equity Versus Domestic
- Neutral Fixed Income
- Emphasize Modest Credit Risk in Fixed Income
- Neutral Alternatives

CONCLUSION

Both U.S. and global economic activity are moderating, impacted by the decline in global stock markets, a cooling China and the lagged effects of higher domestic rates. U.S. economic activity, though, will remain positive, with few recessionary signals. As risk assets corrected materially in the fourth quarter of 2018, we have recommended rebalancing portfolios by selling fixed income and adding back to equities. For the first half of this year we expect a rebound, with positive single-digit returns for bonds and equities, both domestic and international.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE